Economic Trends

The oil price shock continues to spread beyond the energy sector to other areas of the Alberta economy. The housing market has weakened further this year, construction activity is waning, and manufacturing shipments have experienced broad-based declines. The pullback in activity in the province is weighing on the labour market, and employment losses accelerated in the second quarter. Despite the economic challenges, Alberta continues to welcome new arrivals to Canada, with record immigration supporting population growth.

Indicator	Latest Month	Value	Change year-over-year (y/y)
Employment (thousands)	May	2,252	-2.3%
Unemployment Rate	May	7.8%	+1.9 p.p.
CPI Inflation (unadjusted)	May	1.5%	+0.9 p.p.
Retail Sales	April	$6.3 B	+0.7%
Housing Starts (annualized)	May	22,700	-31.7%
Rigs Drilling (unadjusted)	June	41	-43.7%
Manufacturing Shipments	April	$5.1 B	-11.8%
Exports (unadjusted)	April	$5.5 B	-26.2%

Source: Statistics Canada, CAODC, CMHC. p.p.= percentage points.

Alberta Household Sector

Increased strain in labour market

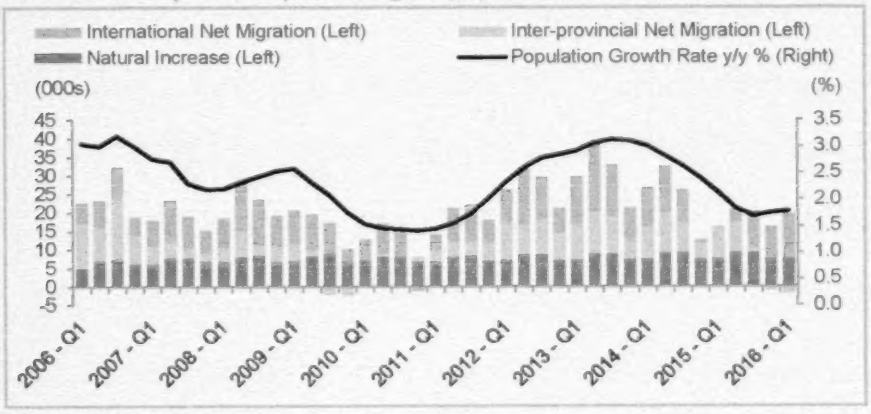
Downward pressure on Alberta's labour has increased. Employment fell by almost 47,000 in the second quarter, the largest quarterly decline since the downturn began. May posted the largest monthly employment drop on record (-24,100), and the unemployment rate jumped by over half a percentage point to 7.8%. So far this year, employment is down 1.3%.

Over the past eighteen months, the number of regular EI beneficiaries has more than doubled, climbing another 820 claimants to 67,860 in April. Job losses in the high paying oil and gas sector have depressed average weekly earnings, which were down 3.8% from the peak in January 2015.

Immigration drives population

Alberta's slowing economy has not deterred new arrivals to Canada from settling in Alberta. Alberta led all provinces in growth in the first quarter of 2016, as population increased 1.8% year-over-year (y/y) to 4,249,842. The province gained 12,050 net international migrants, as record levels of immigration offset net outflows of non-permanent residents. The weak labour market led to a second quarterly net outflow of interprovincial migrants, with 1,788 people leaving Alberta for other provinces. Because of strong immigration, net migration contributed over half of Alberta's population growth, despite the net inter-provincial outflows.

Chart 1: Immigration offsets net interprovincial outflows
Contribution to year-over-year change in population



Source: Statistics Canada

Housing market softens

Alberta's housing market remains sluggish, with weakness in both resale and new housing activity. Existing home sales have fallen in eight of the past ten months, and were down in May by over one-third from the peak in October 2014. The number of new listings continued to wane, pushing the sales-to-new listings ratio up to 52.3% despite lower sales volume. Year-to-date, existing home sales were down 11%. Housing starts are trending around the lowest level in five years, and are down 40% year-to-date. Despite weaker activity, home prices have fallen only slightly, with the

average resale price down 0.7% y/y and the New Housing Price Index down 0.2% y/y in May.

Alberta Business Sector

Alberta manufacturing output slumps

Alberta's manufacturing sector continues to suffer from broad-based weakness. Shipments through the first four months of 2016 were down 15% from the same period of 2015. Machinery manufacturing (see below) and petroleum and coal products were major contributors to the decline; however, even when these subsectors were excluded, shipments were down 6.2% YTD. Food manufacturing shipments, a bright spot for most of 2015, has fallen 8.2% in just over 6 months. Wood product manufacturing (+2.3% YTD) was the one subsetor out of 16 with shipments up year-to-date.

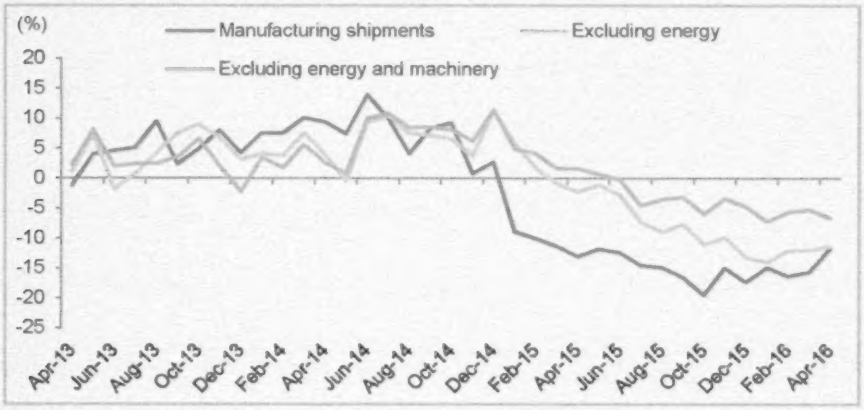
Energy cutbacks weigh on machinery and equipment

Machinery and equipment has been hit particularly hard by low oil prices and the resulting fall in oil and gas activity. Machinery manufacturing shipments are hovering around 12-year lows, with levels down 61% compared to December 2014. Declining sales of mining oil and gas field machinery is responsible for most of the weakness, as rig activity across North American has fallen significantly. The number of rigs drilling for oil and gas in Alberta in the first half of 2016 were down 51% from the first half of 2015. Drilling activity in the US has also dropped precipitously, which has caused Alberta industrial machinery exports to fall to the the lowest level in over a decade.

Construction investment and activity trend lower

Construction investment in Alberta continues to fall, with declines accelerating in the first quarter of 2016 for both residential and non-residential investment. The drop in residential investment was most pronounced, as it fell for the third straight quarter, down 16% y/y. More declines are likely to follow as residential building permits through April were down 35% from the same period of 2015. Non-residential investment has declined for the past four quarters as commercial and industrial investment continue to slide. Industrial investment has fallen 40% since the first quarter of 2015 and is at the lowest level in five years. These declines have been partially offset by a 60% y/y increase in governmental and institutional investment.

Chart 2: Manufacturing weakness extends beyond energy products
Year-over-year growth in manufacturing shipments



Source: Statistics Canada

Global Economy

BREXIT vote increases uncertainty

Britain voted 52%-48% in favor of leaving the European Union. This unexpected result increased economic uncertainity in Europe and sent stock markets tumbling. The British pound fell over 8% in one trading day and continued downward to a new 30-year low. There were ripple effects on global financial and commodity markets, including increased volatility and falling oil prices. The effect on oil prices was temporary, though, with West Texas Intermediate (WTI) returning back towards US$50/bbl.

Global interest rates at record lows

Weak inflation and easing monetary policy in advanced economies have caused long-term bond yields to fall to record lows. Germany became the third country to see 10-year government bond yields turn negative in June. The European Central Bank and central banks in Japan, Switzerland, Sweden and Denmark have continued with negative policy rates. Meanwhile the US Federal Reserve has yet to increase interest rates this year as it is increasingly wary of sluggish employment growth and increased headwinds in the global economy.

Oil exporters continue to struggle

Since the beginning of 2015 major oil exporters have struggled with declining oil prices. Brazil, Russia, and Venezuela have all suffered economic contractions, as falling export revenues have exacerbated structural challenges in these economies. Although Russia seems to be stabilizing, the issues are persisting in Venezuela and Brazil, with both countries experiencing rapidly rising unemployment and declining economic activity. On the eve of the Olympics, Brazil has seen five consecutive quarterly declines in real GDP. Venezuela is in worse shape, with rocketing inflation, shortages of basic goods and increased political turmoil.

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